



Semiannual Report to Congress

October 1, 1999 – March 31, 2000

OIG

Office of Inspector General



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

April 27, 2000

The Honorable Alan Greenspan
Chairman
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Chairman Greenspan:

The enclosed *Semiannual Report to Congress* summarizes the activities of the Office of Inspector General of the Board of Governors of the Federal Reserve System (Board) for the reporting period October 1, 1999, through March 31, 2000. During this reporting period, we continued to perform a variety of audits, reviews, investigations, and special projects covering a wide range of the Board's programs and operations. Major accomplishments during this period are as follows:

- We completed our monitoring of the Board's century date change (CDC) activities. We identified key initiatives begun during the CDC period that we believe need to continue and possibly be enhanced to further improve the Board's computer operations and its oversight of information technology activities of supervised financial institutions.
- We completed the financial statements audit of the Federal Financial Institutions Examination Council and the Board's portion of the audit of Federal Reserve Employee Benefits System Plans.
- We completed a control self-assessment project that focused on internal control and security issues of the Board's implementation and support of its human resources software application.
- We responded to a congressional questionnaire related to the Board's use of the internet.
- We completed five follow-ups of previous audit reports that resulted in closing twenty-eight of thirty-two open recommendations.
- We handled ninety-two hotline complaints, completed two investigative cases, and referred nine cases to Board management for administrative action.

Chairman Alan Greenspan

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April 27, 2000

The Inspector General Act mandates that you transmit this report to the appropriate committees of Congress within thirty days of receipt, together with a separate management report and any comments you may wish to make.

Sincerely,

A handwritten signature in black ink, appearing to read "Barry R. Snyder", with a stylized, flowing script.

Barry R. Snyder
Inspector General

Enclosure



Semiannual Report to Congress

October 1, 1999 – March 31, 2000

OIG

Office of Inspector General

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Introduction

The Federal Reserve System

Congress established the Federal Reserve System (System) as the nation's central bank in 1913. The System is structured to give it a broad perspective on the economy and economic activity in all parts of the nation. It is a federal system, composed basically of a central, governmental agency—the Board of Governors—in Washington, DC, and twelve regional Federal Reserve Banks and their Branches, located in major cities throughout the nation. These components share responsibility for supervising and regulating certain financial institutions and activities, for providing banking services to depository institutions and to the federal government, and for ensuring that consumers receive adequate information and fair treatment in their business with the banking system.

A major component of the System is the Federal Open Market Committee (FOMC), which is made up of the Board of Governors, the president of the Federal Reserve Bank of New York, and the presidents of four other Federal Reserve Banks, who serve on a rotating basis. The FOMC oversees open market operations, which are the main tools used by the Federal Reserve to influence money market conditions and the growth of money and credit.

The Board of Governors of the Federal Reserve System (Board) was established as a federal agency. It is made up of seven members who serve fourteen-year, staggered terms. The Chairman and Vice Chair of the Board each serve four-year terms, which can be renewed. Board members are appointed by the President of the United States and confirmed by the U.S. Senate. The Board has three primary mission areas—monetary policy, banking supervision and regulation, and oversight of Reserve Bank operations and payment systems.

Monetary Policy

The Federal Reserve System formulates and conducts monetary policy to achieve maximum sustainable long-term growth through price stability. The Board, FOMC, and other System officials use statistical data, analyses,

position papers, and forecasts to support monetary policy decisions and actions and address emerging issues relating to open market, discount window, and reserve requirement policies.

Banking Supervision and Regulation

The Federal Reserve is responsible for promoting a safe, sound, competitive, and accessible banking system and stable financial markets. To achieve this mission, the Board supervises and regulates state-chartered banks, bank holding companies, international branches of member banks, Edge Act agreement organizations, and domestic activities of foreign banks; acts as a lender of last resort; and implements regulations designed to inform and protect consumers. The Board has delegated a portion of its supervisory and regulatory functions to the Federal Reserve Banks, including commercial bank examinations, bank holding company inspections, and approval of certain types of applications. The Board also coordinates many of its supervisory activities with other federal, state, and foreign regulators.

Oversight of Reserve Bank Operations

The Federal Reserve System plays a key role in assuring the smooth functioning and continued development of the nation's payment systems, the distribution of currency and coin, and the fiscal agency function for the U.S. Department of the Treasury. The Board

- assists in implementing Federal Reserve services so that the requirements of the Monetary Control Act are met and prices cover the costs of providing services;
- serves as the custodian and interpreter of the System's *Financial Accounting Manual* and administers the production and distribution of the System's financial reports;
- ensures the accuracy and integrity of the Reserve Bank balance sheets and the safekeeping of the Banks' assets;

Office of Inspector General

- reviews Reserve Bank operations for efficiency and effectiveness;
- controls Reserve Bank expenditures and financial planning;
- reviews plans for renovations and new Reserve Bank buildings; and
- reviews Reserve Bank data processing and communications systems.

The Office of Inspector General (OIG) was established by the Board in July 1987. The OIG became statutorily mandated in April 1989, by the IG Act, which legislated specific duties and responsibilities and reporting relationships. Specifically, the IG Act states the Inspector General will

- provide policy direction for and conduct, supervise, and coordinate audits and investigations relating to the programs and operations of the Board;
- review existing and proposed legislation and regulations relating to the programs and operations of the Board, and make recommendations concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by the Board or the prevention and detection of fraud and abuse in such programs and operations;
- recommend policies for and conduct, supervise, or coordinate relationships between the Board and other federal, state, and local government agencies and nongovernmental entities with respect to all matters relating to the promotion of economy and efficiency in the administration of and the prevention and detection of fraud and abuse in programs and operations administered or financed by the Board, as well as the identi-

fication and prosecution of participants in such fraud or abuse; and

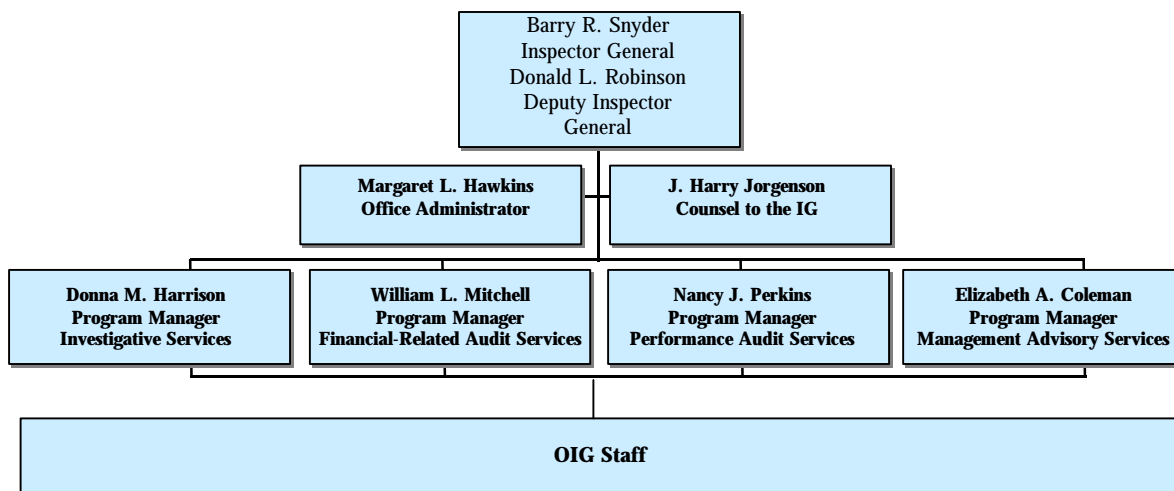
- keep the Chairman and Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by the Board, recommend corrective actions, and report progress made in implementing corrective actions.

In addition, the Federal Deposit Insurance Act (FDI Act) requires the OIG to conduct reviews of certain failed depository institutions whose failure results in a material loss to the bank insurance funds.

The OIG performs its duties and responsibilities under four major service areas (as shown in the organization chart which follows). Combined, these service areas perform traditional audits and investigations as well as some nontraditional consulting and partnering with Board management and staff. The work performed by each service area during this reporting period follows.

Office of Inspector General

January 2000



OIG Staffing	
Auditors	17
EDP Auditors.....	3
Investigators.....	4
Attorney	1
Administrative	2
Information Systems Analysts.....	<u>2</u>
Total Positions	29

Financial-Related Audit Services

Overview

The financial-related audit services area concentrates its efforts on

- providing reasonable assurance that the Board's financial statements present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles;
- assessing the accuracy and reliability of segments of financial statements, financial information, budget data, and financial performance reports;
- evaluating the effectiveness of internal controls governing the Board's contracts and procurement activities;
- evaluating the internal controls and security procedures over financial and management information systems and the safeguarding of the Board's facilities, assets, and sensitive information, including the controls used in computer-based systems; and
- determining compliance with applicable laws and regulations related to the Board's financial and administrative operations.

This service area is designed to identify questioned costs as required by the Inspector General Act (see appendix 1).

Projects Completed During the Reporting Period

Audit of the Federal Financial Institutions Examination Council's (FFIEC) Financial Statements for the Years Ended December 31, 1999 and 1998

Each year, we contract for an independent public accounting firm's audit of the financial statements of the Federal Financial Institutions Examination Council (FFIEC), because the Board performs the accounting function for the FFIEC. Our current contracted auditors, Deloitte & Touche LLP, planned and

performed the audit to obtain reasonable assurance about whether the FFIEC's financial statements are free of material misstatement. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also included an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of overall financial statement presentation. In the auditors' opinion, the FFIEC's financial statements present fairly, in all material respects, the financial position of the FFIEC as of December 31, 1999 and 1998, and the results of operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

To determine the auditing procedures needed to express an opinion on the financial statements, the auditors also considered the FFIEC's internal controls over financial reporting. Although this consideration of the internal controls would not necessarily disclose all matters that might be material weaknesses, the auditors noted no such matters. In addition, the auditors performed tests of the FFIEC's compliance with certain provisions of laws, regulations, contracts, and grants, since noncompliance with these provisions could have a direct and material effect on the determination of the financial statement amounts. The auditors' testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

[Audit of the Financial Statements of the Federal Reserve Employee Benefits System Plans](#)

Each year we perform selected audit steps as part of an independent public accounting firm's audit of the financial statements of the Federal Reserve Employee Benefits System Plans. Specifically, we performed certain tests relating to key controls that affect the Board's Employee Benefits System Plans for the year ended December 31, 1999. We found no material exceptions to report.

Follow-up of the Division of Reserve Bank Operations and Payment Systems' Distributed Processing Environment Audit

We completed a follow-up of our *Report on the Audit of the Division of Reserve Bank Operations and Payment Systems' Distributed Processing Environment* during the reporting period. The audit report contained three recommendations focusing on the long-range business processes of strategic planning, risk assessment and security management, and contingency planning. As a result of our follow-up, we found that sufficient action has been taken to close out the recommendation on strategic planning. Regarding the remaining recommendations, the division's Information Systems function plans to perform a risk assessment of the division's business processes in 2000, to be followed by the development of a more comprehensive resumption plan. We are encouraged by the approach presented to us for addressing these recommendations and will continue to monitor progress made toward implementation.

Follow-up of the Board Oversight of Reserve Bank Procurement Audit

During this reporting period, we completed a second follow-up of our *Report on the Audit of Board Oversight of Reserve Bank Procurement*. Our initial follow-up, reported in March 1998, showed that actions pertaining to two recommendations on procurement policy and procedural guidelines were still in process and therefore were not closed. Our second follow-up involved interviewing Board management and reviewing pertinent policies and documentation. As a result of our work, we found that the Board has taken sufficient action to close the two remaining recommendations.

Appendix 3 shows the recommendations that we are currently tracking.

Ongoing Projects

Audit of the Board's Financial Statements for the Years Ended December 31, 1999 and 1998

Each year we contract for an independent public accounting firm's audit of the Board's financial statements. The audit is planned to obtain reasonable assurance that the financial statements are free of

material misstatement. Our contracted auditors, Deloitte & Touche LLP, will express an opinion on the fairness of financial statement presentation and will report on internal controls over financial reporting and on compliance with certain provisions of laws, regulations, contracts, and grants. The auditors began fieldwork in February 2000 and the audit should be completed in April 2000.

Review of the Board's Frequent Flyer Policy

In March 1999, we initiated a review of the Board's frequent flyer policy. Our overall objectives are to evaluate alternatives for implementing an economic, efficient, and effective frequent flyer program to help the Board maximize the benefit of employee participation in airline frequent flyer programs and to evaluate compliance by frequent travelers with the current Board policy.

We have completed our draft report and plan to discuss the results of our review with management and obtain their comments on our findings, conclusions, and recommendations. We will report on this project in our next semiannual report.

Systemwide Review of Information Security Manual Compliance

During the reporting period, we participated with the audit departments at each Reserve Bank in a review of compliance with the Federal Reserve System's *Information Security Manual* (ISM) provisions for vulnerability assessments and penetration testing. This project is part of a Systemwide effort to help ensure a uniform approach to ISM compliance and to identify common vulnerabilities as well as best practices. We plan to brief Board management on the results of our review and participate in any additional Systemwide audit activity that may result from this initial data gathering effort.

Performance Audit Services

Overview

The performance audit services area conducts program and economy and efficiency audits of the Board. Program audits determine the extent to which the desired results or benefits are being achieved, the effectiveness of programs, activities, and functions, and whether programs operate in compliance with significant laws and regulations. Economy and efficiency audits determine such things as whether the Board is using the optimum amount of resources in delivering the appropriate quantity and quality of services in a timely manner, is properly maintaining its resources, and has adequate management information systems for measuring, reporting, and monitoring program operations. Specific audits conducted focus on current issues, congressional interest and initiatives, and program changes. This service area is designed to identify recommendations where funds could be put to better use as required by the Inspector General Act (see appendix 2).

In addition, this service area conducts reviews of failed state-chartered member banks that result in a material loss to the bank insurance funds as required by the FDI Act. We also assist the OIGs of the Department of the Treasury and the Federal Deposit Insurance Corporation when they are required to perform a material loss review of a financial institution under their agency's supervision that involves one or more bank holding companies, which the Board regulates.

Projects Completed During the Reporting Period

Audit of the Board's Year 2000 Activities

We have been monitoring the century date change (CDC) activities of the Board for more than two years, helping primarily to minimize the potential impact on the Board's internal operations and to ensure the readiness of supervised financial institutions. During the rollover event, the Board, the Reserve Banks, and supervised institutions experienced only a few minor "glitches" which were promptly addressed. Throughout our review,

we observed excellent cooperation and coordination within the Federal Reserve System and with other government entities and the private sector. We believe that the smooth, uneventful transition to the new century resulted, in large part, from the successful efforts of Board and System staff in remediating and testing internal systems, overseeing the efforts of supervised institutions, working with other organizations, and educating the general public.

On March 31, 1998, July 1, 1998, September 30, 1998, and January 26, 1999, we provided interim audit assessments on the Board's CDC activities to the members of the Board, including issues we believed Board members and management needed to address. Further, to provide more timely feedback during 1999 and the rollover event, we continually communicated issues and suggestions to responsible Federal Reserve officials and staff who addressed the issues we raised and adopted many of the suggestions considered most critical.

During this reporting period, we concluded our monitoring efforts of the Board's century date change activities. In our final summary, we identified a number of initiatives begun during the CDC period that we believe need to continue and possibly be enhanced. The key areas that we consider to be most important include application change management, business continuity planning, information technology examination resources, and supervision quality control measures. Also, related to these areas, we suggested actions to further enhance existing Federal Reserve information systems and operations. In addition to these items above, we suggested that other collateral by-products of the CDC effort be continued for the Board and the System as a whole.

Follow-up of the Consumer Compliance Examination Process

During the reporting period, we completed a second follow-up of our *Audit of the Board's Consumer Compliance Examination Process*. Our audit report contained fourteen recommendations designed to enhance the efficiency and effectiveness of the Board's

consumer compliance examination process. During a previous follow-up we closed three recommendations. Based on this follow-up, nine of the remaining eleven recommendations were closed. We found that actions taken have clarified examination issues through formal guidance and improved data access. Two recommendations remain open and we will continue to monitor their progress, and report on that progress in the next semiannual report.

Follow-up of the Federal Reserve's
Implementation of the Risk-
Focused Approach to Supervising
Community Banks

During the reporting period, we completed a follow-up on our *Report on the Audit of the Federal Reserve's Implementation of the Risk-Focused Approach to Supervising Community Banks*. This report contained eight recommendations designed to enhance the efficiency and effectiveness of the risk-focused framework for examining community banks as well as coordination between federal and state banking regulators. We believe that the Division of Banking Supervision and Regulation has adequately addressed the recommendations included in our report and we have closed all eight.

Follow-up of the Board's Change
Control Process

A second follow-up on our *Audit of the Division of Information Resource Management's Change Control Process* was completed during the reporting period. In the audit report, we made four recommendations designed to enhance the efficiency and effectiveness of the change control process of the Division of Information Technology (IT), formally Information Resource Management. Based on this follow-up we found that actions were taken by the division during their century date change (CDC) preparations to implement new change control procedures and create a distributed system to track and manage their change control efforts. IT senior management has also recently indicated that work will continue on change control, and many enhancements for the system are being made, based on lessons learned during the CDC event and changing business needs. While these actions did not completely address all aspects of the four recommendations, we believe that the actions taken sufficiently address the recommendations' intent. We also believe that manage-

ment is implementing a commensurable level of controls, and therefore we have closed all recommendations included in the original report.

As previously indicated, appendix 3 shows the recommendations that we are currently tracking.

Ongoing Projects

Material Loss Review

On September 1, 1999, the Office of the Comptroller of the Currency closed the First National Bank of Keystone (FNB Keystone), Keystone, West Virginia. The Federal Deposit Insurance Corporation (FDIC) has estimated that this failure may cost the FDIC's Bank Insurance Fund between \$500 and \$800 million. On March 10, 2000, the Treasury OIG issued the report *Material Loss Review of the First National Bank of Keystone*, OIG-00-067, as required by the FDI Act, since the Office of the Comptroller of the Currency was Keystone's primary regulator.

We are studying the Treasury's OIG report on the problems that resulted in the losses and the supervision of FNB Keystone to determine if any issues identified in the report can help enhance the supervisory efforts of the Federal Reserve System. Information learned about this bank failure, along with our study of recent bank supervisory initiatives undertaken in response to the failure, may also assist in planning future audit efforts.

Investigative Services

Overview

The investigative services area performs both criminal and administrative investigations of alleged fraud, waste, abuse, mismanagement, and employee misconduct. We cover the full range of investigative requirements from both reactive and proactive directions. Specifically, our approach includes

- reaction to possible wrongdoing identified by others through the OIG hotline and other sources;
- reaction to possible wrongdoing through referrals from auditors; other Board program functions; Congress; and other federal, state, and local audit or law enforcement agencies; and
- attention to prevention and detection activities that both foster an environment that discourages wrongdoing and encourages close coordination with audits on risk and vulnerability surveys.

Our hotline operation is available to those who want to report wrongdoing in the Board's programs and operations (including delegated functions). Our local and toll-free hotline numbers and the hotline address are published in

- the Board's in-house telephone directory;
- an interagency hotline network publication sponsored by the President's Council on Integrity and Efficiency (PCIE);
- the Congressional Record;
- local telephone directories;
- the in-house telephone directories of each of the Federal Reserve Banks and Branches as well as in their respective local telephone directories; and

-
- selected documents, correspondence, and reports proproduced by the OIG.

The OIG also receives requests for investigations from within the Board and from outside sources and makes referrals to other law enforcement organizations as appropriate. The OIG's prevention and detection strategy is designed to identify causes of fraud and abuse, to provide a mechanism for the early detection of fraud and abuse, to minimize any potential damage or loss, and to help the Board resolve such problems and prevent their recurrence, if possible.



Inspector General Hotline

1-202-452-6400

1-800-827-3340

Report: Fraud, Waste or Mismanagement

Information is confidential

Caller can remain anonymous

You can also write the:

Office of Inspector General

HOTLINE

Mail Stop 300

Board of Governors of the Federal Reserve System

20th & Constitution Avenue, N.W.

Washington, DC 20551

Activity During the Reporting Period

Our investigators continued to address allegations of wrongdoing related to the Board's programs and operations, as well as violations of the Board's standards of conduct. During this reporting period, we received 109 complaints, of which ninety-two were from our hotline

operation. Most hotline callers were consumers with complaints or questions about practices of private financial institutions. Those inquiries involved matters such as funds availability, account fees and charges, and accuracy and availability of account records. We continued to receive numerous questions concerning how to process Treasury securities and savings bonds. Other callers contacted us seeking advice about programs and operations of the Board, Banks, and other financial regulatory agencies. OIG investigators directed those inquiries to the appropriate Board offices, Federal Reserve Banks, or federal or state agencies. We closed all ninety-two hotline complaints after our initial analysis and contact with the complainants, where possible.

In addition to the hotline complaints, the investigative services program received seventeen allegations that were referred to the OIG from Board program staff, OIG audit activities, and other sources. As a result of those allegations, the OIG opened ten additional formal investigations, and incorporated seven of those allegations into our ongoing review of fictitious instrument fraud complaints. Fictitious-instrument fraud schemes are those in which promoters promise very high profits based on fictitious instruments that they claim are issued, endorsed, or authorized by the System or a well-known financial institution.

During the reporting period, we closed two cases, including one opened during a previous reporting period, and continued work on eleven of the twelve cases still open from previous reporting periods. The investigative findings in one of our active cases required the OIG to refer it to the local prosecutor to determine whether it merited criminal prosecution. The case was declined in favor of administrative action. We referred nine cases for administrative action. We had twenty active cases at the end of this reporting period. Our overall summary statistics are provided in appendix 4.

Management Advisory Services

Overview

The Board faces a variety of challenges in ensuring that it has the people, processes, and technologies necessary to meet the evolving and varying needs of its clients and to provide a wide range of high quality services in a cost-effective manner. The management advisory services area provides value-added consulting services to help Board management effectively and efficiently meet these growing demands.

Using a variety of methodologies and accepted tools, this service area emphasizes working with Board managers in a real-time manner to establish project objectives and tailor an approach to achieve results. The management advisory services area also performs our legislated law and regulation review function.

Methodologies, Tools, and Techniques

Control Self Assessment

A primary objective of our work in the management advisory services area is to assist managers in analyzing the inherent and operational risks in their work environments. Control self assessment (CSA) is a formal, documented process in which management and work teams directly involved in a business function participate in workshops facilitated by CSA-trained specialists to assess the effectiveness of controls for minimizing risks and achieving business objectives. CSA has proven to be a powerful tool for effecting positive change because it empowers staff who perform the tasks being examined to openly evaluate operations and participate in implementing improved controls and business processes. We have found that the CSA process provides us with a closer perspective of the management issues that impact day-to-day operations and helps ensure active corrective action as issues are identified.

Business Process Review

A business process review (BPR) provides a systematic, disciplined approach for achieving measurable performance improvements by fundamentally reexamining,

rethinking, and redesigning the processes that an organization uses to carry out its mission. Most processes typically begin with either an internal or external customer need or expectation, cut across several functional units within the organization as products or services are delivered, and end when the customer is satisfied. Conducting a BPR of selected operations gives us an opportunity to work more closely with Board management to identify operational changes that may be needed to streamline processing, promote efficient operations, provide performance improvements, implement best practices, or make more effective use of technology.

Other Advisory Tools and Techniques

The management advisory services program area uses a variety of other value-added, prevention and partnership activities, and will tailor an approach to meet the unique client or program needs. As we begin an engagement focused on the human resources function, for example, we are blending the complementary techniques from the CSA and BPR methodologies to create a hybrid we have labeled “Business Process Self Assessment” (see page 21). Combining elements of these tools for evaluating and improving operations will position us to address any aspect of the multifaceted human resources function. The management advisory services program area also monitors major Board projects and system development efforts to help ensure that proper controls, managerial practices, process efficiencies, and performance monitoring are built in at the earliest stage possible to save the cost of potential corrections after the fact.

Projects Completed During this Reporting Period

PeopleSoft Control Self Assessment

We recently completed a control self assessment (CSA) that focused on internal control issues related to the Board’s implementation and support of PeopleSoft—the software application for payroll, benefits, and certain other human resources functions. During this engage-

ment, Board management and staff worked together with OIG facilitators as a team to identify internal control weaknesses and assess the associated risks, vulnerabilities, and compensating controls. The CSA team's work encompassed a detailed review of each internal control related function performed by the staff who manage the PeopleSoft application. Consultants with experience in reviewing PeopleSoft controls in a wide range of organizations were also engaged to ensure that our analysis and recommendations were comprehensive and commensurate with industry best practices. The CSA team also gained a valuable perspective from a benchmarking visit to a PeopleSoft user within the Federal Reserve System.

In an effort to achieve enhanced controls while maintaining the Human Resources function's business objectives, a variety of alternatives were considered, and numerous options to achieve cost-effective solutions were evaluated. The CSA team made recommendations and prepared specific action plans for augmenting PeopleSoft internal controls related to security, separation of duties, and user access and authentication. The recommendations and action plans have the full support of the end user, have been approved by the Staff Director for Management, and are currently being implemented.

EGov Congressional Initiative

Toward the end of the reporting period, we received a congressional request for a quick response on the status of the Board's website focusing on two main areas. First, the requestors were interested in how the Board is making its website available to the public, including persons with disabilities. Second, we were asked to provide information regarding the Board's use of the Internet to conduct e-commerce and other transactions. Through coordination with the Board's Chief Information Officer, we prepared a letter that addressed the specific questions asked and provided a general characterization of the Board's e-government activities.

Overall, we found that the Board's public website is increasingly being used to distribute rulemaking actions

and decisions, statistical releases, and other time-sensitive information which, in turn, has reduced the paperwork burden and associated printing and postage costs. In addition, technological improvements are either in place or in process to not only improve the searchability of the Board's website, but also to provide persons with visual impairments access to the site. Finally, the Board uses "e" transactions to make employee and vendor payments and is seeking to increase the use of this practice in other areas.

Ongoing Projects

Business Process Review of the Board's Publications Program

The Board's publications program supports the various missions of the Board by making information about the Federal Reserve accessible to the federal government, regulated entities, legal and business communities, libraries and research institutions, economists and other scholars, consumers, and the public at large. The Board has over eighty published products, including books, journals, brochures, press releases, testimony, speeches, legal notices, statistical releases, manuals, reports, staff studies, and research papers. Materials published under the program are distributed in print form and most items can also be accessed on the Board's internet website at <http://www.federalreserve.gov/>. A publications committee composed of senior officials from several Board divisions and offices, oversees the program.

Drawing on the mutual interest of the new publishing committee chairperson to evaluate publishing processes and products, we are conducting a two-phase business process review of the Board's publications program using a review team consisting of both OIG and publications program staff. The objectives for phase one are to

- determine if the current set of publications is responsive to customers' information needs and consistent with the Board's strategic objectives for the publications program;

-
- determine if publications are properly priced;
 - evaluate the use of technology and the future impact of technology advancements on publications production and distribution;
 - identify opportunities for cost savings by reducing the number or changing the mix of publications; and
 - identify opportunities for cost savings or service enhancements through process improvements, changes to organizational structure, or changes in resources committed to the publications program.

To achieve these phase one objectives, the review team has compiled a complete list of Board publications and their characteristics, documented key workflow processes for major publications, and obtained information on what other organizations viewed as the key features of their publication programs. The team also distributed two separate questionnaires to a total of 3,200 publications subscribers to collect measurable feedback on information provided in the *Federal Reserve Bulletin* and the quality of the publications program. The phase one results will be reported to the publications committee in the next reporting period.

During phase two, we will work with the committee as it prioritizes issues identified in phase one and establishes one or more work groups to more fully research alternative approaches and “best practices.” The work group(s) will also develop action plans for implementing change. We expect that this business process review approach will not only promote a better understanding of the publications program and related issues by all of those involved, but will also facilitate acceptance and implementation of any recommended actions.

Human Resources Business Process Self Assessment

We recently began planning a collaborative effort with the Management Division that will focus on the efficiency and effectiveness of various business processes that comprise the human resources function. This

engagement will be unique because we plan to blend the complementary methodologies and approaches from control self assessments and business process reengineering to create a hybrid we have labeled “Business Process Self Assessment.” To our knowledge, no other private or public sector organization has attempted to combine elements of these powerful tools for evaluating and improving operations.

As part of our planning phase activities, we are coordinating with the Administrative Governor and senior officers and staff in the Management Division to identify and prioritize issues to include in the scope of this engagement. To frame these discussions, we will be focusing on the philosophy, goals, and objectives for human resources management at the Board.

Eccles Building Infrastructure Enhancement Project

The Eccles Building infrastructure enhancement project is a 19-phase renovation effort that is expected to take approximately forty months to complete. The project objectives are to remove pipe insulation that contains asbestos, correct fire and life safety deficiencies, replace the deteriorated heating system piping, and install new voice and data communication cable systems. Three phases have been completed and another phase is 95 percent complete. There have been no significant problems or delays and we continue to believe that the overall management and internal controls used during the planning and initial phases of this project are satisfactory.

Due to the inherent risk associated with a project of this magnitude, we have continued our ongoing monitoring of the project, which has included a high level review of the change order and the contract modification processes. We plan to initiate a more formal review of the project during the next reporting period and will report the results of our work as part of the Financial-Related Audit Services Program area.

Banking Organization National Desktop (BOND) Project

The BOND system is designed to provide immediate and user-friendly access to a full range of internal and third-party information, risk assessment data, and other

decision-support tools. It will also foster on-going collaboration among Federal Reserve staff and other bank supervisors.

BOND is expected to facilitate the analysis of trends for like organizations and to enhance the Federal Reserve's ability to identify and manage the risks posed by these diversified banking organizations. We continue to monitor the BOND project and plan to coordinate with the project management and development staff to further define our participation in the effort.

Review of Legislation and Regulations

We review existing and proposed legislative and regulatory items both as part of our routine activities and on an ad hoc basis. We routinely keep track of pending legislation by reviewing lists prepared by the Board's law library, sharing information with others in the Inspector General community, and coordinating with Board programs that also review new and proposed legislation. We then independently analyze the effect that the new or proposed legislation may have on the efficiency and effectiveness of Board programs and operations. For new or proposed regulations or policies, we monitor program contributions to the proposals to ensure that the programs are fulfilling their legally mandated responsibilities and then conduct our own analyses of the possible administrative effects and the risk of fraud, waste, and abuse that could occur if the regulations and policies are implemented.

Reviews of Laws and Regulations Affecting the Federal Reserve

In this reporting period, audits and investigations of various statutory and regulatory compliance issues were identified during the planning phases and legal issues were addressed during the fieldwork and report preparation phases. These reviews covered portions of the Federal Reserve Act, the Bank Holding Company Act, the Federal Deposit Insurance Act, the Gramm-Leach-Bliley Act, the federal information resources acts and the regulations that implement those acts, the Ethics in Government Act and its implementing rules, and the Federal Acquisition Regulation as it pertains to Federal

Supply Schedules. We also reviewed several Board regulations and policies in both their proposed and final forms.

These reviews also covered pending legislation that, by amending one or more of those acts, would affect the Federal Reserve or that would alter the burdens that the acts place on regulated entities or would change the effects that they have on the public. In this regard, the review of the Gramm-Leach-Bliley Act will be a longer-term effort, continuing through future semiannual reporting periods.

A number of possible legislative changes to the Inspector General Act of 1978 (IG Act), as amended, have been introduced in the Senate and in the House to improve OIG operations, reporting, and independence. Some of these changes would affect OIG oversight (H.R.305), while others would affect OIG operations and resource allocations, such as S.870, the IG Act Amendments of 1999; H.R.1827, Government Waste Corrections Act of 2000; and S.1993, Government Information Security Act. We continue to believe, where applicable and feasible, that the proposed changes to the IG Act should be reviewed to eliminate unnecessary distinctions between the Presidentially-appointed IGs and those appointed by their agency head (known as designated federal entity (DFE) IGs). We believe these distinctions have, to a large degree, complicated the issue of DFE IG independence.

In our opinion, Congress created DFE IGs to provide independent audit and investigative activities in their respective agencies and gave these IGs the same roles, responsibilities, powers, reporting requirements and congressional oversight under the law as Presidentially-appointed IGs. However, in the past year, various groups have focused on the appointment difference to question the independence of DFE IGs. Toward that end, bills (notably H.R.2013 and S.870) have been introduced to make all or certain DFE IGs Presidentially-appointed. One bill in particular, S.1707, would make the Inspector

General of the Board of Governors of the Federal Reserve System and four other of the larger DFE IGs Presidentially appointed.

The question of the Board OIG's independence has never been a significant issue since the inception of the office in 1987. In addition to the numerous provisions included in the IG Act, we have taken additional steps here at the Board to help further ensure our independence and objectivity. For example, we established separate budgeting for the OIG, independent legal counsel within the office, and a mechanistic approach to the IG's salary administration. There may be, however, a need to provide additional provisions to even further ensure organizational independence for all inspectors general such as term appointments and specific provisions regarding the removal rather than appointment process. We would be happy to work with the Congress to help resolve these questions and to further enhance the inspector general community.

Appendixes

Appendix 1

Audit Reports Issued with Questioned Costs for the Period October 1, 1999, through March 31, 2000

Reports	Number	Dollar Value	
		Questioned Costs	Unsupported
For which no management decision had been made by the commencement of the reporting period	0	\$0	\$0
That were issued during the reporting period	0	\$0	\$0
For which a management decision was made during the reporting period	0	\$0	\$0
(i) dollar value of disallowed costs	0	\$0	—
(ii) dollar value of costs not disallowed	—	—	—
For which no management decision had been made by the end of the reporting period	0	\$0	\$0
For which no management decision was made within six months of issuance	0	\$0	\$0

Appendix 2

Audit Reports Issued with Recommendations That Funds be Put to Better Use for the Period October 1, 1999, through March 31, 2000

Reports	Number	Dollar Value
For which no management decision had been made by the commencement of the reporting period	0	\$0
That were issued during the reporting period	0	\$0
For which a management decision was made during the reporting period	0	\$0
(i) dollar value of recommendations that were agreed to by management	—	—
(ii) dollar value of recommendations that were agreed to by management	—	—
For which no management decision had been made by the end of the reporting period	0	\$0
For which no management decision was made within six months of issuance	0	\$0

Appendix 3

OIG Audit Reports With Outstanding Recommendations

Report No.	Audits Currently Being Tracked	Issue Date	Recommendations			Status of Recommendations ¹		
			No.	Mgmt. Agrees	Mgmt. Disagrees	Follow-up Completion Date	Closed	Open
Monetary and Economic Policy								
	None currently being tracked							
Supervision and Regulation of Financial Institutions								
A9508	Audit of the Board’s Consumer Compliance Examination Process	04/96	14	11	3	10/99	12	2
A9610	Audit of the Division of Banking Supervision and Regulation’s Distributed Processing	06/97	5	5	0	08/98	2	3
A9704	Audit of the Division of Consumer and Community Affairs’ Distributed Processing Environment	12/97	5	5	0	—	—	—
A9709	Audit of the Federal Reserve’s Implementation of the Risk-Focused Approach to Supervising Community Banks	03/98	8	6	2	12/99	8	0
A9710	Audit of the Federal Reserve System’s Application Commitment Processing	01/98	5	5	0	06/99	4	1
A9808	Joint Review of the Federal Financial Institutions Examination Council’s (FFIEC’s) Training Program	02/99	2	2	0	—	—	—
A9810	Audit of the Board’s Supervisory Process for Implementing the Community Reinvestment Act	03/99	8	7	1	—	—	—
Oversight of Federal Reserve Bank Activities								
A9405	Audit of the Board’s Oversight of Federal Reserve Automation Consolidation	02/96	3	3	0	03/97	2	1
A9603	Audit of Board Oversight of Reserve Bank Procurement	12/96	3	3	0	03/00	3	0
A9707	Audit of the Division of Reserve Bank Operations and Payments Systems’ Distributed Processing Environment	03/98	3	3	0	12/99	1	2

¹ A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable, or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the Board is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred it to the appropriate oversight committee or administrator for a final decision.

Appendix 3—continued

OIG Audit Reports and Recommendations

Report No.	Audits Currently Being Tracked	Issue Date	Recommendations			Status of Recommendations ¹		
			No.	Mgmt. Agrees	Mgmt. Disagrees	Follow-up Completion Date	Closed	Open
Federal Reserve Board Administrative Operations								
A9505	Audit of the Division of Information Resources Management’s Change Control Process	02/96	4	2	2	03/00	4	0
A9507-A	Audit of the Board’s Procurement and Contract Management Process	08/96	16	14	2	11/98	13	3
A9609	Audit of the Administrative Systems Automation Project (ASAP)	02/97	7	7	0	06/98	4	3
A9702	Business Process Review of the Board’s Travel Administration	07/97	9	9	0	01/99	1	8
A9811	Audit of the Board’s Academic Assistance Program	02/99	10	10	0	–	–	–

¹ A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable, or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the Board is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred it to the appropriate oversight committee or administrator for a final decision.

Appendix 4

Summary Statistics on Investigations for the Period of October 1, 1999 through March 31, 2000

Investigative Actions	Number
Referrals for Investigations	
Hotline Referrals	92
Audit Referrals	6
Referrals from Other Board Offices	4
Referrals from Other Sources	7
Proactive Efforts by OIG	
Investigations Developed by OIG	0
Total of Hotline Complaints, Referrals, and Proactive Efforts Received during Reporting Period	109
Investigative Caseload	
Investigations Opened during Reporting Period	10
Investigations Open from Previous Period	12
Investigations Closed during Reporting Period	2
Total Investigations Active at End of Reporting Period	20
Investigative Results for this Period	
Referred to Prosecutor	1
Referred for Audit	0
Referred for Administrative Action	9
Oral and/or Written Reprimand	0
Terminations of Employment	0
Suspensions	0
Demotions	0
Debarments	0
Indictments	0
Convictions	0
Monetary Recoveries	\$0
Civil Actions (Fines and Restitution)	\$0

Appendix 5

Cross-References to the Inspector General Act

Indexed below are the reporting requirements prescribed by the Inspector General Act of 1978, as amended, for the reporting period:

Section	Source	Page
4(a)(2)	Reviews of legislation and regulations	23
5(a)(1)	Significant problems, abuses, and deficiencies	None
5(a)(2)	Recommendations with respect to significant problems	None
5(a)(3)	Significant recommendations described in previous Semiannual Reports on which corrective action has not been completed	None
5(a)(4)	Matters referred to prosecutory authorities	33
5(a)(5)	Summary of instances where information was refused	None
5(a)(6)	List of audit reports	6-13
5(a)(7)	Summary of significant reports	None
5(a)(8)	Statistical Table—Questioned Costs	29
5(a)(9)	Statistical Table—Recommendations that Funds Be Put to Better Use	30
5(a)(10)	Summary of audit reports issued before the commencement of the reporting period for which no management decision has been made	None
5(a)(11)	Significant revised management decisions made during the reporting period	None
5(a)(12)	Significant management decisions with which the Inspector General is in disagreement	None